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UNCLAS SECTION 01 OF 02 COTONOU 000419

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STATE FOR AF/W DANA BANKS AND AF/EPS  
TREASURY FOR RICHARD HALL  
LONDON FOR PETER LORD

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SUBJECT: GOB BRIEFS DONORS ON ECONOMIC POLICY

REF: (A) COTONOU 255 (B) COTONOU 188 (C) 07 COTONOU 874

COTONOU 00000419 001.10 OF 002

1.(U)SUMMARY: On June 24, 2008, President Boni Yayi and his ministers briefed the international donors on the country's mid-year economic performance. The meeting focused on the implementation of the 2008 budget, donor provision of budgetary assistance, the impact of the GOB's measures against the surge in prices, progress on structural reforms, and the GOB's efforts to increase agricultural production. The GOB bemoaned the reluctance of budgetary assistance donors to disburse their aid while donors remained skeptical of the efficacy of the GOB's efforts to combat the rise in food prices and boost agricultural production. END SUMMARY.

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2008 Budget under pressure from supplemental spending  
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2.(U) As of May 2008, the GOB collected revenues of 232.7 billion Francs CFA (USD 554 million) with a projection of 260 billion Francs CFA (USD 619 million) in revenue by the end of June. This amounts to 89 percent of the expected revenue for the first six months of 2008. The GOB spent 256.3 billion Francs CFA (USD 610 million) between January and May. This is projected to increase to 267.4 billion Francs CFA (USD 636 million), by the end of June which amounts to 96 percent of budgeted spending for the first six months of 2008.

3.(U) The GOB indicated that its measures to alleviate the consequences of high food and fuel prices and the increased costs of construction supplies resulted in a loss of 48,248,478,989 Francs CFA (USD 114,877,331) in revenue (due to the reduction of certain taxes on imports) and additional expenditures of 26,431,696,500 Francs CFA (USD 62,932,610). The GOB added that it would need additional funds to continue this support for the remainder of the 2008 fiscal year and will submit to the National Assembly an amendment to the finance bill to finance these expenditures.

4.(U) The GOB is also missing the 26.7 billion Francs CFA (USD 63.5 million) in projected donor budgetary assistance for 2008. The budgetary assistance donors, who include the European Union, the Netherlands, Switzerland, Germany, Denmark, the World Bank, and France, have not yet disbursed their 2008 budget support. Soule Lawani, the Minister of Finance and Economy, stated he did not understand the donors' reasons for not providing the budgetary assistance even though the GOB almost met the donors' requirements. These requirements include the continuation of dialogue with donors, the improvement of the government's financial management, and approval of the Poverty Reduction Strategy Papers' (PRSP) indicators.

5.(SBU) David Quenum, macroeconomist at Netherlands' Embassy in Benin, told Post after the meeting that the Dutch did not make their budgetary contribution because the GOB kept postponing its structural reforms implementation deadline. In addition Quenum said that, despite the Minister of Finance and Economy's statement to the contrary, PRSP indicators were not yet approved.

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Status of privatization efforts  
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6.(U) In the cotton sector, the GOB plans to put in place a public and private partnership which will encourage the development of the cotton and textile industries. Note. The GOB failed in its two prior attempts to privatize the cotton parastatal Sonapra (Ref C) End Note. The GOB also plans to create a joint public and private sector purchasing group for agricultural inputs. The GOB also plans to create an agricultural bank with private sector participation to provide loans for agricultural activities.

7.(U) The GOB informed donors that it put in place a recovery plan in January 2008 for Benin's public energy company, the Electrical Energy Corporation of Benin (SBEE). An assessment of the results of this plan will take place in December 2009. The evaluation's results will determine the privatization plan and date.

8.(U) The GOB stressed that the divestiture of Benin Telecoms, the government owned telephone and internet company, is one of its priorities. The company is currently under a recovery plan scheduled to end by January 2009. The GOB envisages opening its capital to individuals and private companies in the second quarter of 2009. The GOB asked for World Bank support to audit Benin Telecoms to speed the assessment of its assets.

COTONOU 00000419 002.8 OF 002

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Donors' reaction to the GOB's Presentation  
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9.(U) Most of the donors expressed reservations about the efficiency of the GOB's measures to address price hikes through price fixing and tax cuts. The donors warned against the creation of an agricultural bank as most past attempts to create agricultural banks in West Africa have failed. Many of the donors agreed, in principle, to provide the GOB with food aid but asked for statistics on food shortages before making a firm commitment.

10.(U) The Chinese Ambassador advocated for the Benin-China joint venture textile and sugar companies. He said the textile companies were unable to meet growing foreign orders because of insufficient supplies of raw cotton. He called for the GOB to guarantee these companies a steady supply of cotton. He also urged the GOB to allocate land to grow sugar cane to supply SUCOBE (Sucrierie Complant du Benin), a Chinese company which operates, on a concession basis, a sugary refinery in Benin.

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Comment  
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11.(SBU) Comment: The GOB's engagement with the donor community, exemplified by this meeting, is commendable. The GOB's commitment to the privatization process still remains uncertain. The privatization of the state cotton company failed, for what has since emerged, as primarily political reasons masquerading as problems with the bidding process. While the GOB states it intends to privatize the state telecommunications company and power company it has not yet taken the concrete action necessary to do so. The GOB's use of fuel and food subsidies and tax reductions to tackle rising prices will begin to present a problem as it strains the GOB's ability to meet its budget. We will continue to urge the GOB to adopt realistic policies in response to rising prices and to boost agricultural production. End Comment.

